May 14, 2019

**Financial Highlights for the Three Months Ending March 31, 2019**

**Revenues and Expenses**

For the three months ending March 31, 2019, total revenues grew $58.2 million, or 10%, to $613.5 million. This increase was due to the growth of net patient service revenue of $53.7 million, or 10%, an increase in other revenue of $2.3 million, or 23%, and an increase in joint venture income of $1.9 million, or 409%, over the same period in 2018. When compared to the first quarter of 2018, inpatient admissions increased 903, or 5%, hospital outpatient volumes declined slightly but total outpatient volumes improved 4%, and provider office visits increased 8%.

Please note: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (Topic 842)* (ASU 2016-02), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The right of use assets and corresponding lease liability for operating leases are now recorded on the balance sheet in a manner consistent with financing leases, formerly referred to as capital leases. We adopted the provision of ASU 2016-02 on January 1, 2019. The adoption primarily impacted the balance sheet.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. We adopted the provisions of ASU 2014-09 on January 1, 2018. The adoption of ASU 2014-09 was not material.

The increase in patient service revenue for 2019 compared to 2018 was due to:

- Increased volumes (4,332, or 10%) at Norton Cancer Institute (NCI),
- Norton Medical Group (NMG) hired additional providers and their provider office visits have increased 40,943, or 8%,
- Increased admissions (903, or 5%), Emergency Department visits (488, or 1%), outpatient surgeries (271, or 3%), and inpatient surgeries (40, or 1%) at the hospitals.

Other revenue increased $2.3 million, or 23%, due to the receipt of a settlement check from one of our managed care providers at NMG and increased technical service fees at CPA Lab. Joint venture income increased $1.9 million, or 409%, due to the gain recorded on the sale of one of our joint ventures.

Direct expenses increased $43.0 million, or 8%, compared to the same period in 2018. Major components of this expense growth were:

1. Labor and benefits rose by $21.0 million, or 7%, broken down as follows:

| (in millions) | 2019 | 2018 | % Change |
|---|---|---|---|
| Salary and Wages | $255.3 | $240.7 | 6% |
| Contract Labor | 2.7 | 2.0 | 35% |
| Benefits | 58.4 | 52.7 | 11% |
| Total | $316.4 | $295.4 | 7% |

Salary and wages increased at NMG ($9.6 million), the hospitals ($2.4 million), and NCI ($1.1 million). NMG continued to hire additional providers, which resulted in additional salary expense and increased volumes. System wide pay increases were given in the second and third quarters of 2018. NCI hired additional providers and added new services.

Benefit costs increased due to higher: employer contributions for the discretionary funding of the 403(b)/401(k) benefit plans ($3.4 million), health insurance expense ($1.1 million), and FICA expense ($900,000).

2. The increase in professional fees occurred primarily at Norton Children's Hospital (NCH) ($810,000), Norton Women's and Children's Hospital (NWCH) ($564,000), and Norton Hospital ($375,000). NCH's increase was caused by our increase in financial support to the University of Louisville School of Medicine's Pediatric Department. NWCH incurred increased costs with their anesthesia contract. Rate increases in the Breast Center, anesthesia, and orthopedic surgery were the causes of the increase at Norton.

3. Drug and supply costs increased $16.1 million, or 13%; $11.2 million in drug expense and $4.9 million in supply expense. The increase in drug expense occurred at NCI ($8.3 million) and the Norton Healthcare Pharmacies (Pharmacies) ($1.8 million). The NCI variance is volume related particularly in their Specialty Pharmacy and clinics. The Pharmacies experienced increased revenues in all four of their locations. The increase in supply expense occurred at Norton Audubon Hospital ($2.3 million), NMG ($1.6 million), and NWCH ($1.0 million). Audubon's increase occurred in Surgery and the Cardiac Catheterization Labs where they incurred costs for cardiovascular implant items, chargeable supplies, non-chargeable supplies, spine implant items, and orthopedic implant items; NMG's was volume related and due to the purchase of new molecular flu and strep test kits, which are more expensive than the traditional test kits but are more accurate in the diagnosis; and NWCH's was in Surgery and the Blood Bank for non-chargeable supplies and blood products.

4. The increase in repairs and maintenance of $2.1 million, or 15%, occurred at the System Office ($1.4 million), NCH ($395,000), and Properties ($271,000). Information Services incurred costs for software licensing and maintenance contracts while Clinical Engineering experienced increased costs for maintenance contracts, repairs to imaging equipment, and new service agreements. NCH incurred costs related to flood damage and surgical equipment repairs. Properties incurred costs for floor repairs, elevator repairs, and flood damage.

5. All other direct expenses increased by $1.9 million, or 4%. We experienced increases for rents and leases, insurance, equipment rent, excise taxes, special event costs, and travel partially offset by a decline in utilities and fees and special services.

As a result of greater total revenue growth than direct expense growth, EBITDA improved from $43.3 million in 2018 to $58.5 million in 2019.

Fixed expenses, which include depreciation and amortization and interest expense, increased $1.2 million or 3%, with all of this increase in depreciation and amortization expense. This increase occurred primarily at Audubon ($866,000) and NCH ($537,000). Audubon's increase was due to renovation and equipment in their Intensive Care Unit, Transitional Care Unit, and Emergency Department; and NCH's was for build out in the University of Louisville Pediatric medical office building and renovation in their Neonatal Intensive Care Unit. Also, both hospitals incurred costs related to energy initiatives. These projects were placed in service after the first quarter of 2018, so no depreciation expense was recorded during that period but was recorded in the first quarter of 2019.

Patient service margin increased from $9.1 million in 2018 to $23.1 million in 2019, or an improvement of $14.0 million. Increases in net patient service revenue, other revenue, and joint venture income were partially offset by increased salary and wages, drugs, employee benefits, supplies, repairs and maintenance, professional fees, and depreciation and amortization.

Investment income was $23.7 million and $10.3 million for the first quarter of 2019 and 2018, respectively. This improvement was caused by unrealized gains on the alternative investment segment of our investment portfolio recorded in 2019 compared to unrealized losses recorded in 2018, increased interest and dividend income, and lower investment manager fees partially offset by realized losses recorded in 2019 compared to realized gains recorded in 2018.

Operating income was $46.8 million in 2019 compared to $19.4 million in 2018. This represents an improvement of $27.4 million and was the result of higher patient service margin and increased investment results.

Other non-operating revenues and expenses show a gain of $64.5 million, which is an improvement of $83.9 million from the same period in 2018. Unrealized investment gains totaled $65.8 million for the first quarter of 2019 compared to unrealized losses of $12.7 million for the same period in 2018. Market conditions have improved in 2019 compared to 2018. The change in mark to market on the swap agreements improved $1.7 million in the first three months of 2019 compared to a deterioration of $3.7 in the first three months of 2018. Net periodic pension cost was $2.8 million and $3.0 million for the first quarter of 2019 and 2018, respectively.

Other equity transactions show a gain of $390,000 and $67,000 for the first quarter of 2019 and 2018, respectively. In 2019, restricted contributions were used for the Randolph Scheen Family Conference Center at NCH. In 2018, restricted contributions were minimal.

Net assets increased by $111.7 million and $27,000 for the first three months of 2019 and 2018, respectively.

**Balance Sheet – March 31, 2019 compared to December 31, 2018**

Working capital increased $7.8 million compared to the prior year end primarily due to the change in cash position and an increase in patient receivables partially offset by increases in accrued expenses and other, due to third party payors, and accrued interest. Although our cash position declined $2.9 million, not all of this activity impacted working capital as monies were used to fund the semi-annual interest payment on our bonds, pay accounts payable items, pay the discretionary employer contribution to the 403(b)/401(k) savings plans, and pay physician and executive bonuses. The liability for the savings plans is recorded in accrued payroll items. Taking into consideration these activities, our cash position actually improved during the first quarter of 2019.

Significant items impacting cash were:

- Payments made for trade payables, payroll and related taxes, and provider taxes,
- Purchase of capital assets,
- Funding the semi-annual interest payments on our debt,
- Malpractice annual funding and liability settlements, and
- Employer contributions to the 403(b)/401(k) savings plans,

which were partially offset by:

- Collections on hospital/physician practice patient receivables and other miscellaneous receipts,
- Reimbursement for capital projects funded by bond proceeds, and
- Receipt of Intensity Operating Allowance payments.

The increase in patient receivables was caused by increased net patient service revenue. Current portion of assets limited as to use increased because we funded the interest payment on our bonds, which is due April 1st. Prepaid expenses declined due to monthly amortization primarily in Clinical Engineering and Information Services. The decrease in accounts payable is due to timing of the invoice processing. Accrued expenses and other increased due to the recording of the current portion of operating lease liabilities, discussed in the new accounting policies paragraph, above. The decline in accrued payroll items was due to payments made to the 403(b)/401(k) savings plans, payments made for physician and executive variable compensation partially offset by the timing of our payroll cycle compared to the monthly calendar and increases in accrued vacation. The increase in due to third party payors was caused by reserves being established for the current year Medicare and Medicaid cost report filings. Interest on our bonds is due on April 1st and October 1st, thus six months interest is accrued at March 31st compared to three months at December 31st.

Cash and investments available for debt service increased $72.3 million, as follows:

| (in millions) | 3/31/2019 | 12/31/2018 | Change |
|---|---|---|---|
| Operating Cash | $ 191.6 | $ 194.5 | $ (2.9) |
| Marketable Securities | 128.6 | 127.5 | 1.1 |
| Board Designated Funds | 1,225.6 | 1,151.8 | 73.8 |
| Bond Trustee Funds | 22.2 | 21.9 | 0.3 |
| Total | $1,568.0 | $1,495.7 | $72.3 |

This improvement was caused by favorable investment results partially offset by cash spending, discussed above. As a result, consolidated days of cash on hand increased to 259 at March 31, 2019 from 252 at December 31, 2018.

Accounts receivable days outstanding increased from 33.5 as of December 31, 2018 to 37.8 as of March 31, 2019.

The increase in assets limited by Board of Trustees was due to favorable investment results. The decrease in assets limited by Bond Indenture Trust was the result of reimbursement of capital projects to our cash balances from bond proceeds partially offset by favorable investment results. The increase in assets limited by Self Insurance Trust was caused by our annual funding made to this Trust and favorable investment results partially offset by claims payments.

Property and equipment increased $11.4 million to $979.8 million. This was the result of capital spending primarily for: the tower expansion at Norton Brownsboro Hospital, NCH design fees, construction of a new building for NCI, construction at Audubon, and equipment purchases at the hospitals and NCI partially offset by depreciation.

The increase in other assets of $179.5 million and was caused primarily by recording the right of use assets for operating leases, discussed in the new accounting guidance paragraph, above. Pledges receivable, net of reserve, the mark to market position on the swap agreements, and the vendor incentive with Premier also increased during the quarter.

Other non-current liabilities increased $155.3 million. This was caused by recording the lease liability for operating leases, discussed in the new accounting guidance paragraph, above, accruals made to the pension plan to record periodic pension cost, and accrual made for malpractice claims, net of claim payments, partially offset by payments made by the deferred compensation plans.

Total debt increased $309,000 due to amortization of bond discounts and bond issue costs less payments made on the debt.

Thank you for your ongoing interest in Norton Healthcare. We are continually evaluating alternatives to manage and optimize our outstanding debt portfolio. We may from time to time seek to retire or purchase outstanding bonds through cash purchases, through a public Tender Offer, privately negotiated transactions, or otherwise at our sole discretion. Such purchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. The amount of bonds purchased or exchanged may be material. If you have any questions or concerns, please contact Helena Schulz at (502) 629-8263 or by e-mail at helena.schulz@nortonhealthcare.org.

Sincerely,

Adam D. Kempf
Senior Vice President and Chief Financial Officer

# BOND HOLDER PACKET

# NORTON HEALTHCARE, INC.

# UNAUDITED

# FINANCIAL STATEMENTS

# March 31, 2019

# Norton Healthcare, Inc.
# Financial Statements

## Table of Contents

NORTON HEALTHCARE, INC. 05/13/19
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands 09:37
for ** Consolidated Level Range ** IS-C-QTRROUN
March 31, 2019

| | Quarter Ending | | | Year to Date | | |
|---|---|---|---|---|---|---|
| | 03/31/19 | 03/31/18 | Variance | 03/31/19 | 03/31/18 | Variance |
| Net Patient Service Revenu | 597,278 | 543,610 | 53,668 | 597,278 | 543,610 | 53,668 |
| Other Revenue | 12,336 | 10,058 | 2,278 | 12,336 | 10,058 | 2,278 |
| Donations & Contributions | 2,429 | 2,114 | 315 | 2,429 | 2,114 | 315 |
| Joint Venture Income | 1,450 | (469) | 1,919 | 1,450 | (469) | 1,919 |
| Total Net Revenue | 613,493 | 555,313 | 58,180 | 613,493 | 555,313 | 58,180 |
| Expenses | | | | | | |
| Salary and Wages | 255,338 | 240,757 | (14,581) | 255,338 | 240,757 | (14,581) |
| Contract Labor | 2,660 | 1,959 | (701) | 2,660 | 1,959 | (701) |
| Employee Benefits | 58,413 | 52,719 | (5,694) | 58,413 | 52,719 | (5,694) |
| Professional Fees | 19,344 | 17,423 | (1,921) | 19,344 | 17,423 | (1,921) |
| Drugs | 63,282 | 52,120 | (11,162) | 63,282 | 52,120 | (11,162) |
| Supplies | 80,694 | 75,781 | (4,913) | 80,694 | 75,781 | (4,913) |
| Fees, Special Services | 26,983 | 27,032 | 49 | 26,983 | 27,032 | 49 |
| Repairs and Maintenance | 16,361 | 14,228 | (2,133) | 16,361 | 14,228 | (2,133) |
| Equipment Rent | 1,923 | 1,827 | (96) | 1,923 | 1,827 | (96) |
| Rents and Leases | 8,902 | 7,517 | (1,385) | 8,902 | 7,517 | (1,385) |
| Utilities | 5,673 | 5,956 | 283 | 5,673 | 5,956 | 283 |
| Insurance | 5,996 | 5,711 | (285) | 5,996 | 5,711 | (285) |
| Provider Tax | 5,032 | 5,032 | 0 | 5,032 | 5,032 | 0 |
| Other | 4,429 | 3,997 | (432) | 4,429 | 3,997 | (432) |
| Subtotal Direct Expenses | 555,030 | 512,059 | (42,971) | 555,030 | 512,059 | (42,971) |
| EBITDA | 58,463 | 43,254 | 15,209 | 58,463 | 43,254 | 15,209 |
| Fixed Expenses | | | | | | |
| Depreciation & Amortizat | 25,445 | 24,241 | (1,204) | 25,445 | 24,241 | (1,204) |
| Interest Expense | 9,887 | 9,919 | 32 | 9,887 | 9,919 | 32 |
| Patient Service Margin | 23,131 | 9,094 | 14,037 | 23,131 | 9,094 | 14,037 |

NORTON HEALTHCARE, INC.
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands
for ** Consolidated Level Range **
March 31, 2019

05/13/19
09:37
IS-C-QTRROUN

| | Quarter Ending | | | Year to Date | | |
|---|---|---|---|---|---|---|
| | 03/31/19 | 03/31/18 | Variance | 03/31/19 | 03/31/18 | Variance |
| Investment Income (Loss) | 23,691 | 10,300 | 13,391 | 23,691 | 10,300 | 13,391 |
| Operating Income (Loss | 46,822 | 19,394 | 27,428 | 46,822 | 19,394 | 27,428 |
| Non-Operating Rev (Exp) | | | | | | |
| Chg in Unreal G/(L) in I | 65,841 | (12,656) | 78,497 | 65,841 | (12,656) | 78,497 |
| Other Non-Operating Reve | (1) | 3 | (4) | (1) | 3 | (4) |
| Chg in Fair Value of Swa | 1,740 | (3,749) | 5,489 | 1,740 | (3,749) | 5,489 |
| Net Periodic Pension Cos | (2,766) | (2,965) | 199 | (2,766) | (2,965) | 199 |
| James R. Petersdorf Fund | (332) | (70) | (262) | (332) | (70) | (262) |
| Total Non-Operating Rev ( | 64,482 | (19,437) | 83,919 | 64,482 | (19,437) | 83,919 |
| Excess Rev Over Exp | 111,304 | (43) | 111,347 | 111,304 | (43) | 111,347 |
| Other Equity Transactions | 390 | 67 | 323 | 390 | 67 | 323 |
| Inc(Decr) in Net Assets | 111,694 | 24 | 111,670 | 111,694 | 24 | 111,670 |
| STATISTICS: | | | | | | |
| Admissions | 18,970 | 18,067 | 903 | 18,970 | 18,067 | 903 |
| Adjusted Admissions | 44,751 | 40,827 | 3,924 | 44,751 | 40,827 | 3,924 |
| Patient Days | 96,463 | 91,881 | 4,582 | 96,463 | 91,881 | 4,582 |
| Adjusted Patient Days | 227,560 | 207,630 | 19,930 | 227,560 | 207,630 | 19,930 |
| O/P Visits (Excl ER & OP S | 143,564 | 134,893 | 8,671 | 143,564 | 134,893 | 8,671 |
| E/R Visits | 63,091 | 63,252 | (161) | 63,091 | 63,252 | (161) |
| Outpatient Surgery | 9,114 | 8,823 | 291 | 9,114 | 8,823 | 291 |
| Inpatient Surgery | 5,220 | 5,180 | 40 | 5,220 | 5,180 | 40 |
| Deliveries | 1,818 | 1,787 | 31 | 1,818 | 1,787 | 31 |
| Clinic/Phys Visits | 617,708 | 572,305 | 45,403 | 617,708 | 572,305 | 45,403 |
| Acute LOS | 5.09 | 5.09 | | 5.09 | 5.09 | 0.00 |
| FTE | 12,541.1 | 12,233.9 | (307.2) | 12,541.1 | 12,233.9 | (307.2) |
| FTE/AOB | 4.96 | 5.30 | 0.34 | 4.96 | 5.30 | 0.34 |
| wRVUs | 1,294,717 | 1,185,574 | 109,143 | 1,294,717 | 1,185,574 | 109,143 |
| Observation Cases | 6,933 | 6,548 | 385 | 6,933 | 6,548 | 385 |

# Report Generation

NORTON HEALTHCARE, INC. 05/13/19
Combined Balance Sheets 09:37
In Thousands BS-CMB-BRD

| | March 2019 | December 2018 | Increase (Decrease) | % |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | 191,598 | 194,516 | (2,918) | (2) |
| Mkt Securities & Other Inv | 128,618 | 127,504 | 1,114 | 1 |
| Net A/R | 252,082 | 235,827 | 16,255 | 7 |
| Miscellaneous Receivables | 20,396 | 20,335 | 61 | |
| CP Assets Limited to Use | 37,668 | 21,489 | 16,179 | 75 |
| Inventories | 56,252 | 56,973 | (721) | (1) |
| Prepaid Expenses | 46,503 | 49,174 | (2,671) | (5) |
| Total Current Assets | 733,117 | 705,817 | 27,300 | 4 |
| Assets Limited as to Use | | | | |
| By Board of Directors | 1,225,615 | 1,151,755 | 73,860 | 6 |
| By Bond Indenture Trust | 57,235 | 72,827 | (15,592) | (21) |
| By Self Insurance Trust | 90,941 | 74,696 | 16,245 | 22 |
| Restricted Funds | 81,649 | 80,779 | 870 | 1 |
| Total Assets Limited as to Use | 1,455,440 | 1,380,057 | 75,384 | 5 |
| Property Plant & Equipmt, Net | 979,778 | 968,415 | 11,363 | 1 |
| Other Assets: | | | | |
| Investments in Joint Ventur | 18,646 | 17,212 | 1,434 | 8 |
| Beneficial Int. in Outsd Tr | 22,805 | 22,555 | 250 | 1 |
| Right of Use Assets, Net | 172,581 | | 172,581 | |
| Goodwill & Net Intang Assets | 20,508 | 20,517 | (9) | |
| Other | 53,900 | 48,676 | 5,224 | 11 |
| Total Other Assets | 288,439 | 108,960 | 179,479 | 165 |
| Total Assets | 3,456,774 | 3,163,248 | 293,526 | 9 |

NORTON HEALTHCARE, INC.
Combined Balance Sheets
In Thousands

05/13/19
09:37
BS-CMB-BRD

| | March 2019 | December 2018 | Increase (Decrease) | % |
|---|---|---|---|---|
| Liabilities and Net Assets | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 67,203 | 84,739 | (17,536) | (21) |
| Grants Payable | 1,519 | 1,189 | 330 | 28 |
| Accrued Expense & Other | 100,173 | 75,846 | 24,327 | 32 |
| Accrued Payroll Items | 125,122 | 129,369 | (4,247) | (3) |
| Due to Third-Party Payors | 55,908 | 47,378 | 8,530 | 18 |
| Accrued Interest | 16,623 | 8,553 | 8,070 | 94 |
| Current Portion LT Debt | 37,177 | 37,150 | 27 | |
| Total Current Liabilities | 403,724 | 384,223 | 19,501 | 5 |
| Other Noncurrent Liabilities: | | | | |
| Pension | 79,915 | 77,149 | 2,766 | 4 |
| Insurance Liability | 87,718 | 86,649 | 1,069 | 1 |
| Lease Liability - Operating | 154,259 | | 154,259 | |
| Other | 66,853 | 69,598 | (2,745) | (4) |
| Total Other Noncurrent liabil | 388,746 | 233,396 | 155,350 | 67 |
| Total Long-term Debt | 1,079,975 | 1,079,693 | 282 | |
| Net Assets: | | | | |
| Unrestricted | 1,459,634 | 1,347,941 | 111,693 | 8 |
| With Donor Restrictions | 124,694 | 117,994 | 6,700 | 6 |
| Total Net Assets | 1,584,329 | 1,465,936 | 118,393 | 8 |
| Total Liablities & Net Assets | 3,456,774 | 3,163,248 | 293,526 | 9 |

Norton Healthcare, Inc. and Affiliates
Statement of Changes in Net Assets
In Thousands

05/13/19
09:37
BS-CMB-BRD

| | March 2019 | December 2018 |
|---|---|---|
| Net Assets: | | |
| UNRESTRICTED | | |
| Fund Balance | 1,347,941 | 1,286,182 |
| Excess Revenues over Expenses | 111,693 | 61,760 |
| Total Unrestricted | 1,459,634 | 1,347,941 |
| WITH DONOR RESTRICTIONS | | |
| Fund Balance | 117,994 | 119,463 |
| Contributions & Grants | 4,828 | 13,700 |
| Bequests | | 50 |
| Raffle Fundraising | 25 | 27 |
| Special Event Costs | (149) | (926) |
| Investment Income | 810 | 1,819 |
| Inc Dist fr Trust/Change in BI | 63 | (220) |
| Assets Released-Programs/Asst. | (1,089) | (6,000) |
| Assets Relsd-PP&E/Time Restr | (421) | (4,899) |
| Unrealized Gain/Loss | 2,799 | (4,211) |
| Fdtn OH Expense Alloc | (167) | (750) |
| Transfer to/from Affiliates | | (58) |
| Total With Donor Restrictions | 124,694 | 117,994 |
| TOTAL NET ASSETS | 1,584,329 | 1,465,936 |

Norton Healthcare, Inc. and Affiliates
Combined Statements of Cash Flows
In Thousands

| | Three Months Ended March 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $118,393 | $59,952 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains and lossses - net: | | |
| Depreciation and amortization | 25,445 | 98,481 |
| Discount accretion | 716 | 3,097 |
| Change in net unrealized gains and losses on investments | (68,640) | 99,402 |
| Change in interest rate swap value | (1,740) | (1,655) |
| Change in pension plan assets and obligation | - | (933) |
| Restricted contributions and investment income | (5,578) | (14,398) |
| Change in patient accounts receivable | (16,255) | 27,918 |
| Change in assets limited as to use, net | (22,923) | (22,950) |
| Change in amounts due to third-party payors | 8,530 | 15,270 |
| Change in marketable securities | (1,113) | (2,712) |
| Change in other current and noncurrent assets and liabilities | (6,458) | (38,316) |
| Net cash from operating activities | 30,376 | 223,157 |
| **Investing Activities** | | |
| Purchase of property and equipment, net | (36,808) | (188,628) |
| Change in joint ventures and other | (1,434) | 46,493 |
| Net cash from investing activities | (38,242) | (142,135) |
| **Financing Activities** | | |
| Increase in long-term debt | - | 13,615 |
| Principal payments on long-term debt | (630) | (37,266) |
| Restricted contributions and investment income | 5,578 | 14,398 |
| Net cash from financing activities | 4,947 | (9,253) |
| Change in cash and cash equivalents | (2,918) | 71,770 |
| Cash and cash equivalents at beginning of year | 194,516 | 122,747 |
| Cash and cash equivalents at end of month | $191,598 | 194,516 |

# Report Generation

NORTON HEALTHCARE, INC. 05/13/19
Combining Income Statement By Legal Entity Dollars in Thousands 09:37
March 31, 2019 YEAR TO DATE ISCMBYTDROUN

| | Norton System Office | Norton Hospitals Inc. | CMA | Norton Properties Inc. | Norton Enterprises Inc. | Children's Hospital Foundation | Norton Healthcare Foundation | Eliminations | Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| Net Patient Service Revenue | (21) | 497,721 | 95,630 | | 7,587 | | | (3,638) | 597,279 |
| Other Revenue | 2,668 | 3,357 | 9,319 | 11,517 | 2,207 | 48 | 259 | (17,039) | 12,336 |
| Donations & Contributions | 299 | 1,166 | 129 | | | 1,576 | 1,065 | (1,807) | 2,428 |
| Joint Venture Income | | 141 | | | 1,309 | | | | 1,450 |
| Total Net Revenue | 2,946 | 502,385 | 105,078 | 11,517 | 11,103 | 1,624 | 1,324 | (22,484) | 613,493 |
| Expenses | | | | | | | | | |
| Salary and Wages | 35,940 | 129,133 | 84,981 | 286 | 4,516 | 362 | 121 | | 255,339 |
| Contract Labor | 632 | 1,677 | 205 | 34 | 112 | | | | 2,660 |
| Employee Benefits | 12,533 | 30,846 | 14,127 | 112 | 701 | 75 | 19 | | 58,413 |
| Professional Fees | 80 | 19,805 | 533 | | | 16 | | (1,090) | 19,344 |
| Drugs | 55 | 60,075 | 3,151 | | | | | | 63,281 |
| Supplies | (61) | 73,624 | 4,752 | 15 | 2,228 | 33 | 103 | | 80,694 |
| Fees, Special Services | 12,107 | 14,462 | 3,761 | 292 | 2,439 | 183 | 37 | (6,298) | 26,983 |
| Repairs and Maintenance | 12,010 | 3,832 | 133 | 383 | 3 | | | | 16,361 |
| Equipment Rent | 802 | 1,118 | 3 | | | | | | 1,923 |
| Rents and Leases | 2,256 | 4,626 | 6,108 | 8,952 | 117 | 24 | 8 | (13,189) | 8,902 |
| Utilities | 587 | 3,623 | 1,025 | 382 | 54 | 1 | | | 5,672 |
| Insurance | (71) | 3,216 | 2,660 | 29 | 63 | 81 | 18 | | 5,996 |
| Provider Tax | | 5,032 | | | | | | | 5,032 |
| Other | 1,087 | 1,407 | 1,042 | 215 | 100 | 1,425 | 1,059 | (1,906) | 4,429 |
| Management Fee | (38,864) | 38,225 | 399 | 97 | 142 | | | | (1) |
| Subtotal Direct Expenses | 39,093 | 390,701 | 122,880 | 10,797 | 10,475 | 2,200 | 1,365 | (22,483) | 555,028 |
| EBITDA | (36,147) | 111,684 | (17,802) | 720 | 628 | (576) | (41) | (1) | 58,465 |
| Fixed Expenses | | | | | | | | | |
| Depreciation & Amortization | 4,701 | 17,353 | 1,519 | 1,850 | 20 | 1 | | | 25,444 |
| Interest Expense | (1,048) | 9,993 | | 942 | | | | | 9,887 |
| Patient Service Margin | (39,800) | 84,338 | (19,321) | (2,072) | 608 | (577) | (41) | (1) | 23,134 |

NORTON HEALTHCARE, INC. 05/13/19
Combining Income Statement By Legal Entity Dollars in Thousands 09:37
March 31, 2019 YEAR TO DATE ISCMBYTDROUN

| | Norton System Office | Norton Hospitals Inc. | CMA | Norton Properties Inc. | Norton Enterprises Inc. | Children's Hospital Foundation | Norton Healthcare Foundation | Eliminations | Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| Investment Income (Loss) | 23,194 | | | | | 436 | 61 | | 23,691 |
| Operating Income (Loss) | (16,606) | 84,338 | (19,321) | (2,072) | 608 | (141) | 20 | (1) | 46,825 |
| Non-Operating Rev (Exp) | | | | | | | | | |
| Change in Unreal G/(L) Inv | 63,936 | | | | | 1,714 | 192 | | 65,842 |
| Other Non-Operating Revenue | | (1) | | | | | | | (1) |
| Chg in Fair Value of Swap | 1,740 | | | | | | | | 1,740 |
| Net Periodic Pension Cost | (2,766) | | | | | | | | (2,766) |
| James R. Petersdorf Fund | (399) | | 67 | | | | | | (332) |
| Total Non-Operating Rev (Exp) | 62,511 | (1) | 67 | | | 1,714 | 192 | | 64,483 |
| Excess Rev Over Exp | 45,905 | 84,337 | (19,254) | (2,072) | 608 | 1,573 | 212 | (1) | 111,308 |
| Other Equity Transactions | 45 | 345 | | | | 158 | (157) | | 391 |
| Inc(Decr) in Net Assets | 45,950 | 84,682 | (19,254) | (2,072) | 608 | 1,731 | 55 | (1) | 111,699 |
| STATISTICS: | | | | | | | | | |
| Admissions - Acute | | 18,970 | | | | | | | 18,970 |
| Patient Days - Acute | | 96,463 | | | | | | | 96,463 |
| O/P Visits (Excl ER & OP Surg) | | 143,564 | | | | | | | 143,564 |
| E/R Visits | | 63,091 | | | | | | | 63,091 |
| Outpatient Surgery | | 9,114 | | | | | | | 9,114 |
| Inpatient Surgery | | 5,220 | | | | | | | 5,220 |
| Deliveries | | 1,818 | | | | | | | 1,818 |
| Clinic/Phys Visits | | 31,942 | 585,766 | | | | | | 617,708 |
| wRVUs | | 60,203 | 1,027,084 | | | | | | 1,087,287 |
| Observation Cases | | 6,933 | | | | | | | 6,933 |

NORTON HEALTHCARE, INC. 05/13/19
Combining Balance Sheet By Legal Entity Dollars in Thousands 09:37
To Date Ending March 31, 2019 B-COMBINGROU

| | Norton System Office | Norton Hospitals Inc. | CMA | Norton Properties Inc. | Norton Enterprises Inc. | Chidren's Hospital Foundation | Norton Healthcare Foundation | Eliminations | Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | 191,551 | 10 | (153) | | (76) | 236 | 29 | | 191,597 |
| Mkt Securities & Other Inv | 128,618 | | | | | | | | 128,618 |
| Net A/R | | 221,546 | 24,315 | | 6,221 | | | | 252,082 |
| Miscellaneous Receivables | 10,466 | 299 | 277 | (43) | | 4,026 | 5,371 | | 20,396 |
| CP Assets Limited to Use | 37,668 | | | | | | | | 37,668 |
| Inventories | 861 | 53,331 | 769 | | 1,185 | 41 | 65 | | 56,252 |
| Prepaid Expenses | 40,772 | 2,201 | | 3,383 | 35 | 112 | | | 46,503 |
| Total Current Assets | 409,935 | 277,387 | 25,208 | 3,340 | 7,366 | 4,415 | 5,465 | | 733,117 |
| Assets Limited as to Use | | | | | | | | | |
| By Board of Directors | 1,191,567 | | | | | 30,384 | 3,664 | | 1,225,615 |
| By Bond Indenture Trust | 57,235 | | | | | | | | 57,235 |
| By Self Insurance Trust | 90,941 | | | | | | | | 90,941 |
| Restricted Funds | 28,242 | | | | | 27,787 | 25,620 | | 81,649 |
| Total Assets Limited as to Use | 1,367,985 | | | | | 58,172 | 29,284 | | 1,455,440 |
| Property Plant & Equipmt, Net | 84,560 | 766,884 | 31,443 | 96,525 | 327 | 40 | | | 979,778 |
| Other Assets: | | | | | | | | | |
| Other Receivables from Affi | (870,781) | 1,574,917 | (622,319) | (62,738) | (20,031) | 923 | 29 | | |
| Investments in Joint Ventur | 21,750 | 5,619 | | | 25,692 | | | (34,415) | 18,646 |
| Beneficial Int. in Outsd Tr | | | | | | 15,891 | 6,914 | | 22,805 |
| Right of Use Assets, Net | | | | 172,581 | | | | | 172,581 |
| Goodwill & Net Intang Assets | | 7,446 | 6,506 | | 6,556 | | | | 20,508 |
| Other | 28,041 | | | 4 | | 18,234 | 7,621 | | 53,900 |
| Total Other Assets | (820,990) | 1,587,983 | (615,814) | 109,846 | 12,217 | 35,047 | 14,564 | (34,415) | 288,439 |
| Total Assets | 1,041,490 | 2,632,253 | (559,162) | 209,711 | 19,910 | 97,674 | 49,313 | (34,415) | 3,456,774 |

NORTON HEALTHCARE, INC. 05/13/19
Combining Balance Sheet By Legal Entity Dollars in Thousands 09:37
To Date Ending March 31, 2019 B-COMBINGROU

| | Norton System Office | Norton Hospitals Inc. | CMA | Norton Properties Inc. | Norton Enterprises Inc. | Chidren's Hospital Foundation | Norton Healthcare Foundation | Eliminations | Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| Liabilities and Net Assets | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Accounts Payable | 15,481 | 49,217 | 585 | 431 | 1,465 | 7 | 16 | | 67,202 |
| Grants Payable | 1,519 | | | | | | | | 1,519 |
| Accrued Expense & Other | 39,959 | 36,855 | 2,869 | 19,184 | 1,262 | 41 | 3 | | 100,173 |
| Accrued Payroll Items | 104,747 | 3,251 | 16,993 | | 131 | | | | 125,122 |
| Due to Third-Party Payors | | 55,908 | | | | | | | 55,908 |
| Accrued Interest | 16,623 | | | | | | | | 16,623 |
| Current Portion LT Debt | 34,500 | | | 2,677 | | | | | 37,177 |
| Total Current Liabilities | 212,829 | 145,232 | 20,446 | 22,292 | 2,858 | 48 | 19 | | 403,724 |
| Other Noncurrent Liabilities: | | | | | | | | | |
| Pension | 79,915 | | | | | | | | 79,915 |
| Insurance Liability | 87,718 | | | | | | | | 87,718 |
| Lease Liability - Operating | | | | 154,259 | | | | | 154,259 |
| Other | 49,217 | 7,863 | | 5,390 | | 2,189 | 2,194 | | 66,853 |
| Total Other Noncurrent liabil | 216,850 | 7,863 | | 159,650 | | 2,189 | 2,194 | | 388,746 |
| Total Long-term Debt | 1,032,386 | | | 47,589 | | | | | 1,079,975 |
| Net Assets: | | | | | | | | | |
| Unrestricted | (420,962) | 2,467,982 | (579,860) | (19,875) | 17,052 | 27,717 | 1,994 | (34,415) | 1,459,633 |
| With Donor Restrictions | 387 | 11,176 | 251 | 56 | | 67,719 | 45,106 | | 124,695 |
| Total Net Assets | (420,575) | 2,479,158 | (579,609) | (19,819) | 17,052 | 95,437 | 47,100 | (34,415) | 1,584,329 |
| Total Liablities & Net Assets | 1,041,490 | 2,632,253 | (559,162) | 209,711 | 19,910 | 97,674 | 49,313 | (34,415) | 3,456,774 |

NORTON HEALTHCARE, INC.
Combining Balance Sheet By Legal Entity
Changes in Net Assets
To Date Ending March 31, 2019

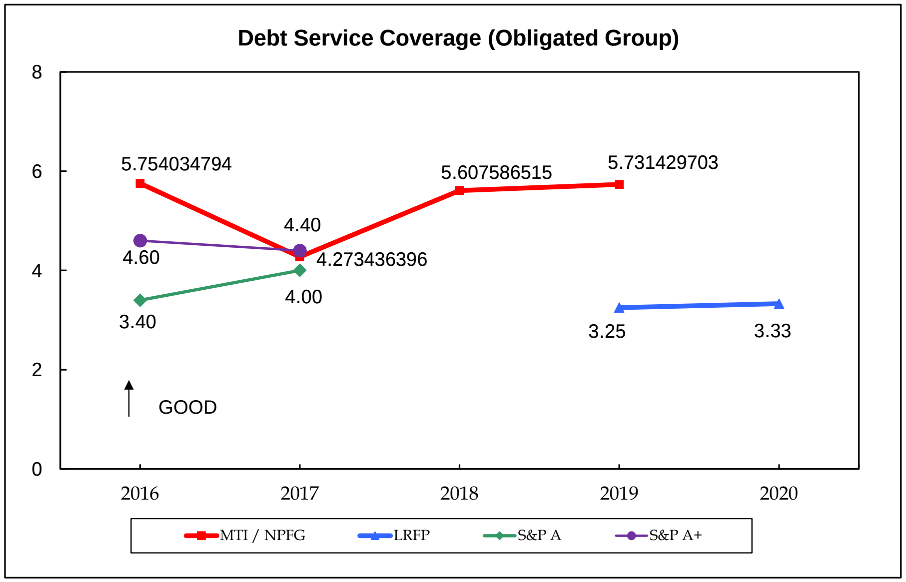
05/13/19
09:37
B-COMBINGROU

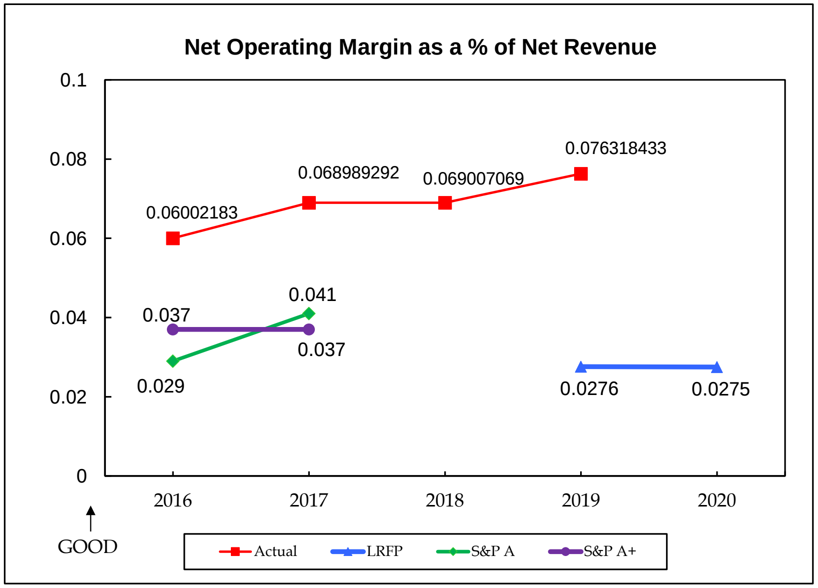
| | Norton System Office | Norton Hospitals Inc. | CMA | Norton Properties Inc. | Norton Enterprises Inc. | Children's Hospital Foundation | Norton Healthcare Foundation | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|
| Net Assets: | | | | | | | | | |
| UNRESTRICTED | | | | | | | | | |
| Fund Balance | (466,911) | 2,383,303 | (560,604) | (17,802) | 16,441 | 25,987 | 1,941 | (34,414) | 1,347,941 |
| Excess Revenues over Expenses | 45,949 | 84,679 | (19,255) | (2,073) | 609 | 1,731 | 53 | | 111,693 |
| Total Unrestricted | (420,962) | 2,467,982 | (579,860) | (19,875) | 17,051 | 27,717 | 1,994 | (34,414) | 1,459,634 |
| WITH DONOR RESTRICTIONS | | | | | | | | | |
| Fund Balance | 255 | 11,162 | 431 | 54 | | 62,838 | 43,254 | | 117,994 |
| Contributions & Grants | 393 | 1,059 | 39 | 2 | | 3,808 | 997 | (1,470) | 4,828 |
| Raffle Fundraising | | | | | | | 25 | | 25 |
| Special Event Costs | | | | | | (18) | (131) | | (149) |
| Investment Income | | | | | | 410 | 401 | | 811 |
| Inc Dist fr Trust/Change in BI | | | | | | 63 | | | 63 |
| Assets Released-Programs/Asst. | (206) | (664) | (219) | | | (685) | (692) | 1,377 | (1,089) |
| Assets Relsd-PP&E/Time Restr | (45) | (345) | | | | (55) | (70) | 94 | (421) |
| Unrealized Gain/Loss | | | | | | 1,441 | 1,358 | | 2,799 |
| Fdtn OH Expense Alloc | | | | | | (104) | (63) | | (167) |
| Transfer to/from Affiliates | (10) | (36) | | | | 20 | 26 | | |
| Total With Donor Restrictions | 387 | 11,176 | 251 | 56 | | 67,719 | 45,106 | | 124,694 |
| TOTAL NET ASSETS | (420,575) | 2,479,158 | (579,609) | (19,819) | 17,051 | 95,437 | 47,100 | (34,414) | 1,584,329 |

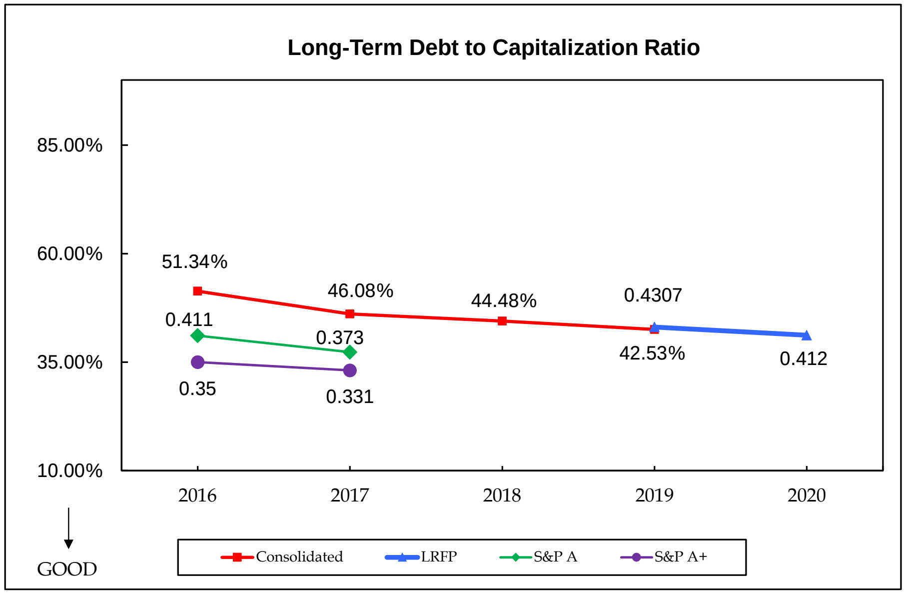
# Key Long-Term Financial Indicators

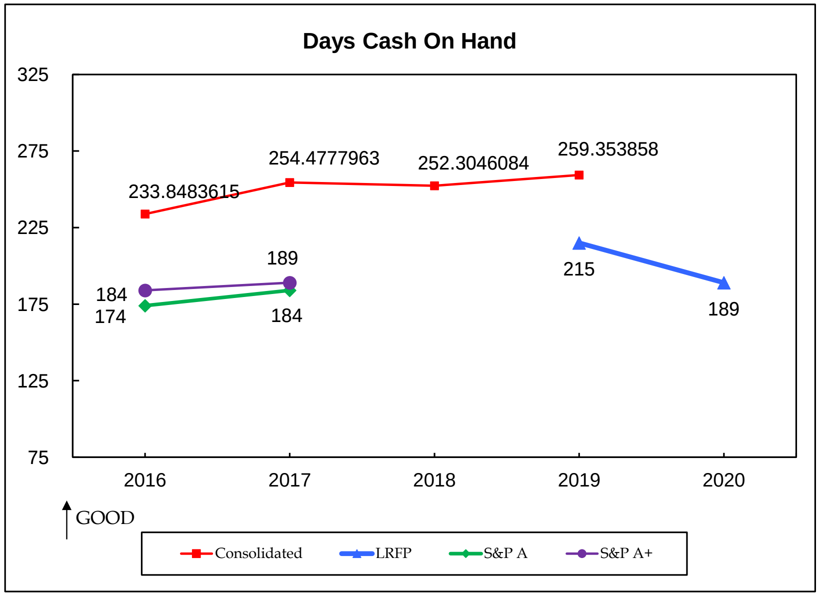
March 31, 2019

**NOTE:** All actual 2019 amounts are year-to-date, while LRFP projections, S&P A, and S&P A+ amounts are for the entire year. LRFP per 2018 Board approval.



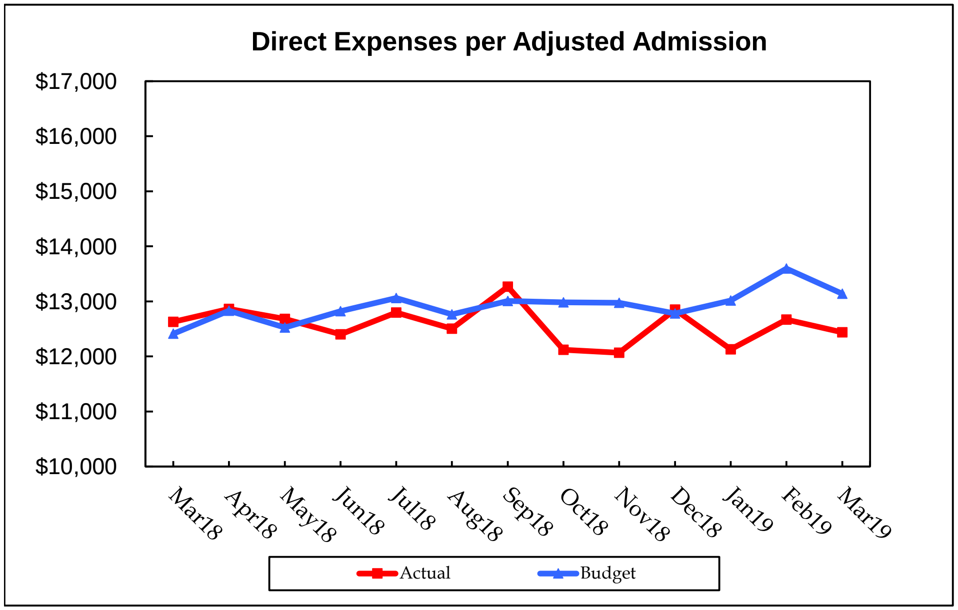



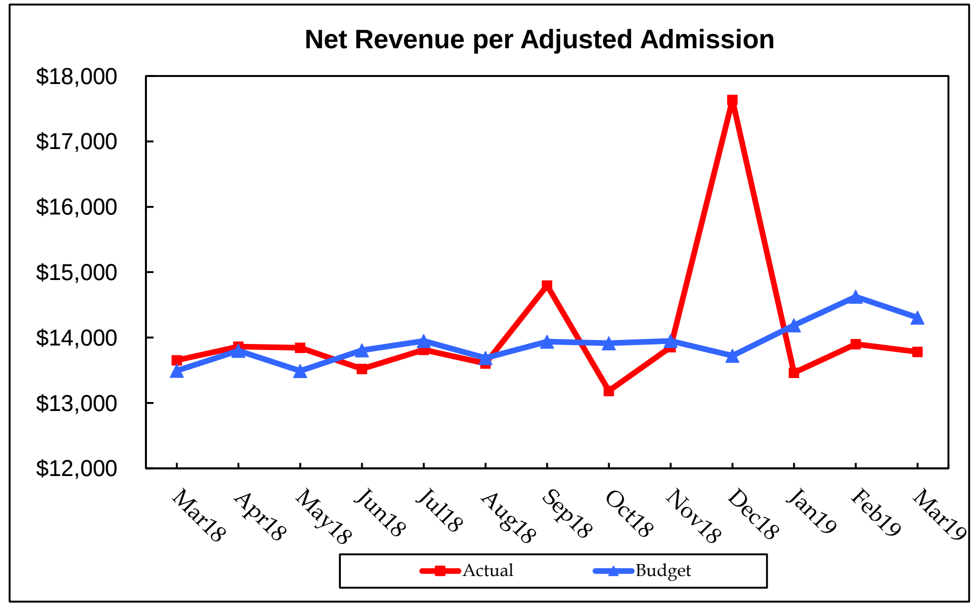



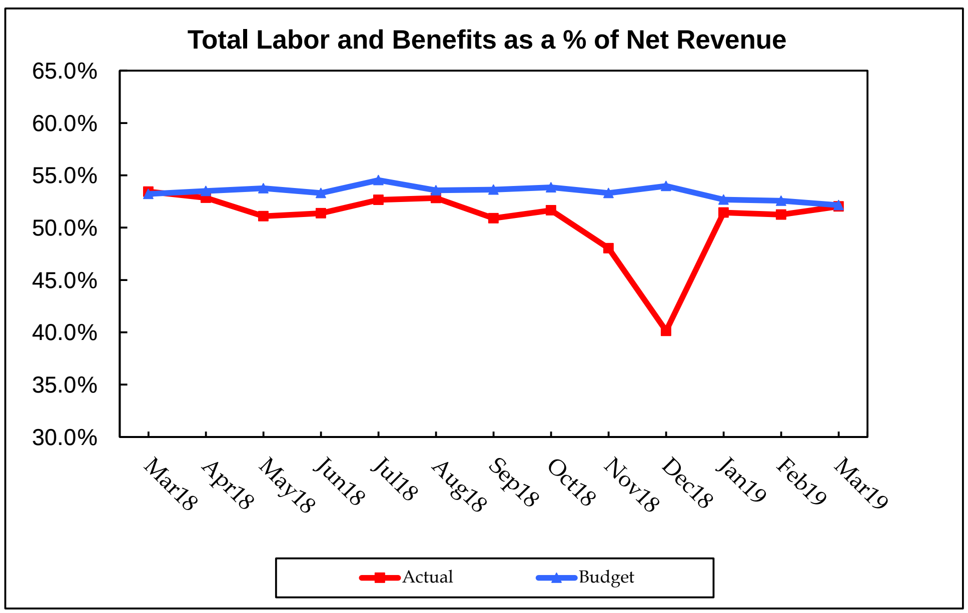
NORTON HEALTHCARE

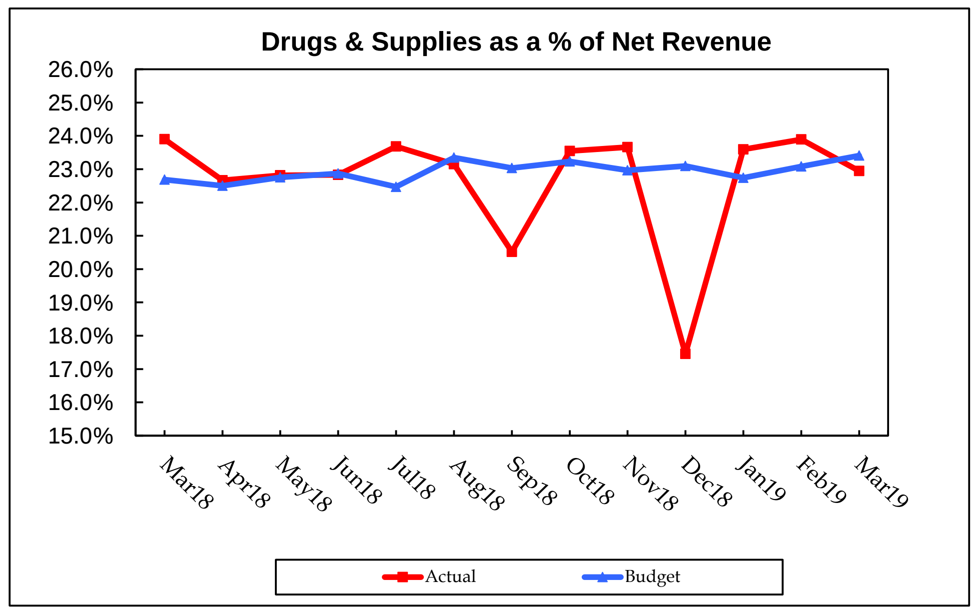
## Key Statistical Financial Indicators

**March 31, 2019**



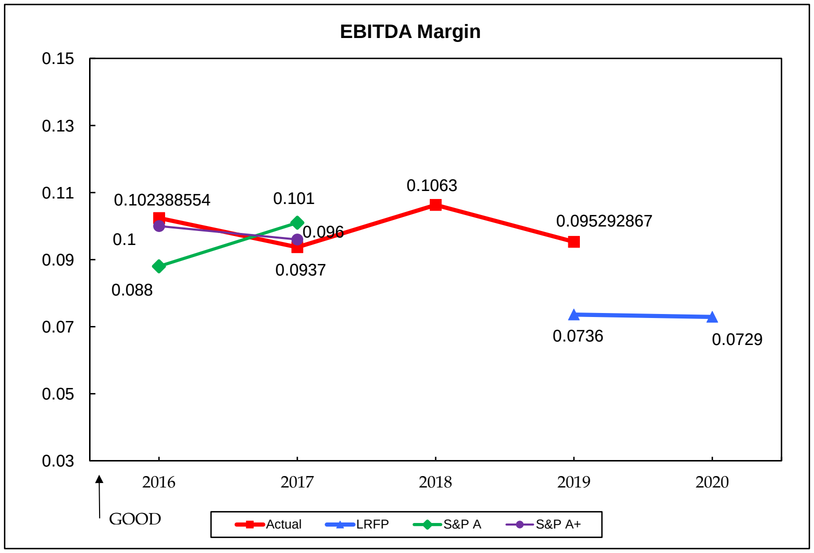



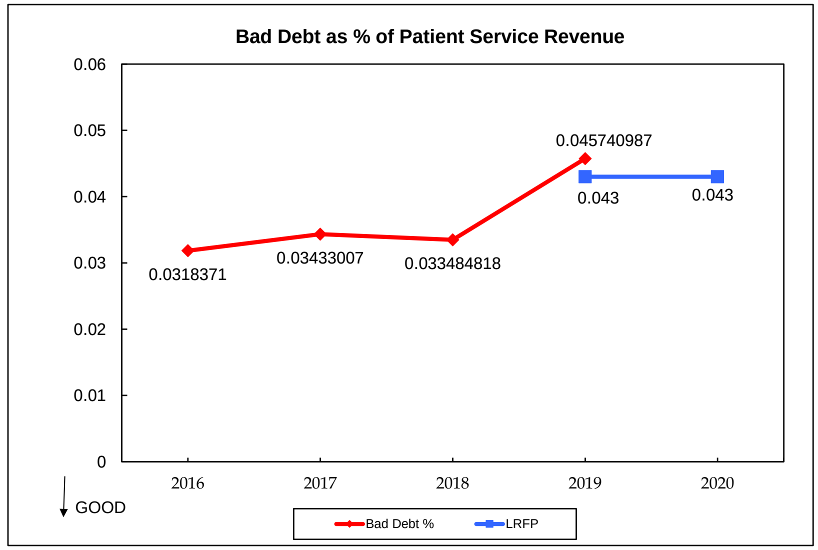
NORTON HEALTHCARE

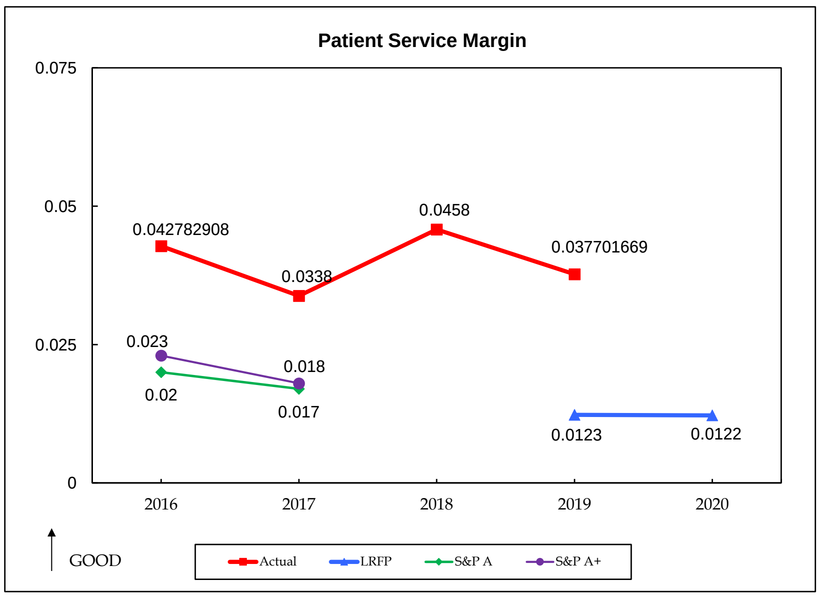
## Key Operating Margin Financial Indicators

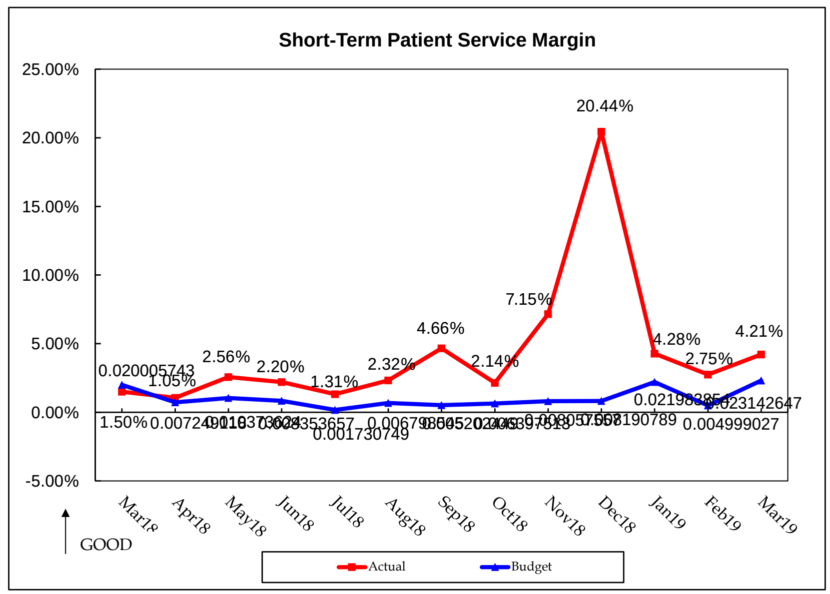
**March 31, 2019**

**NOTE: All actual 2019 amounts are year-to-date, while LRFP projections, S&P A, and S&P A+ amounts are for the entire year. LRFP per 2018 Board approval.**



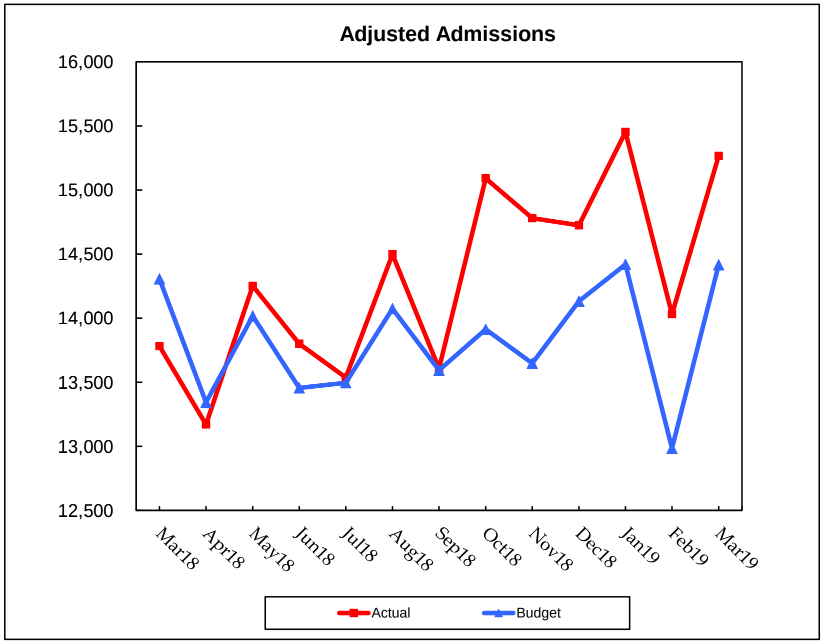



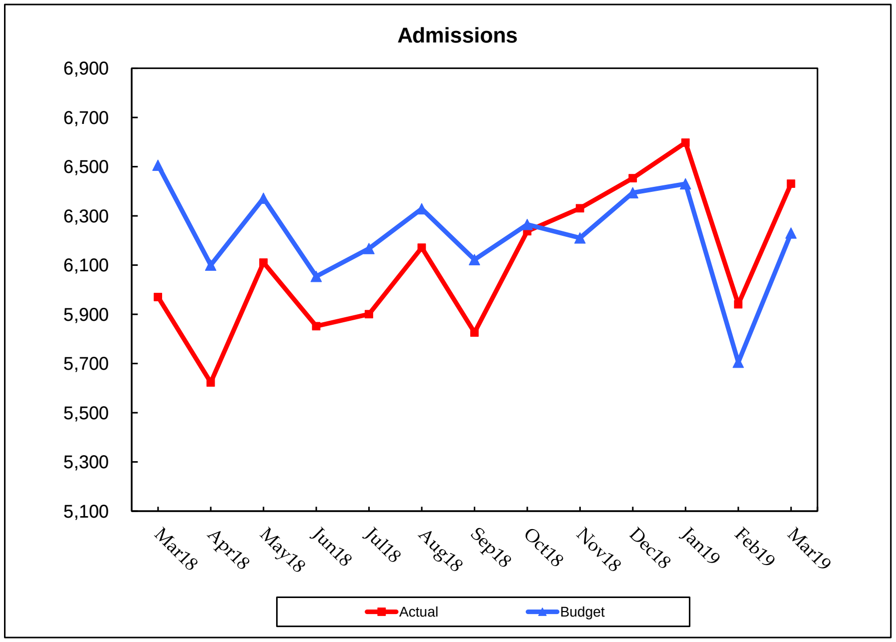



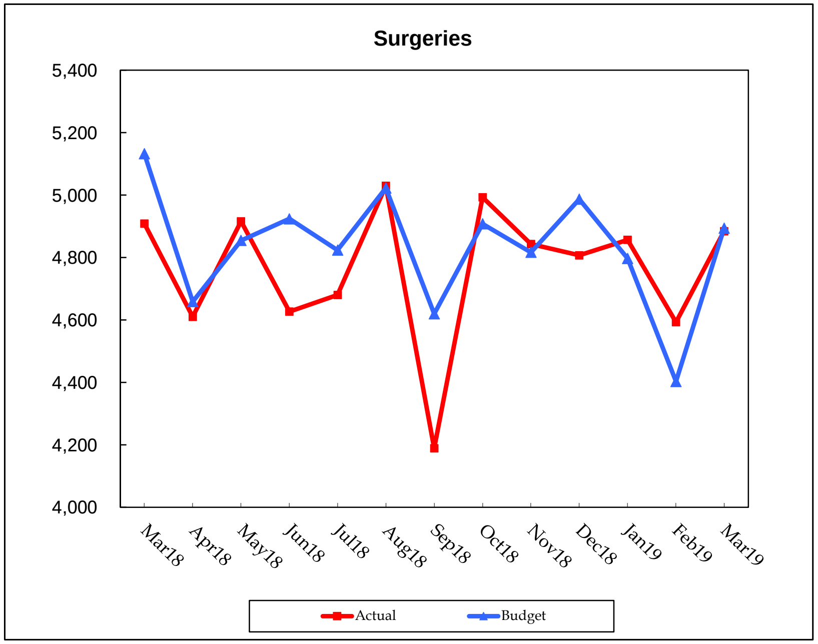



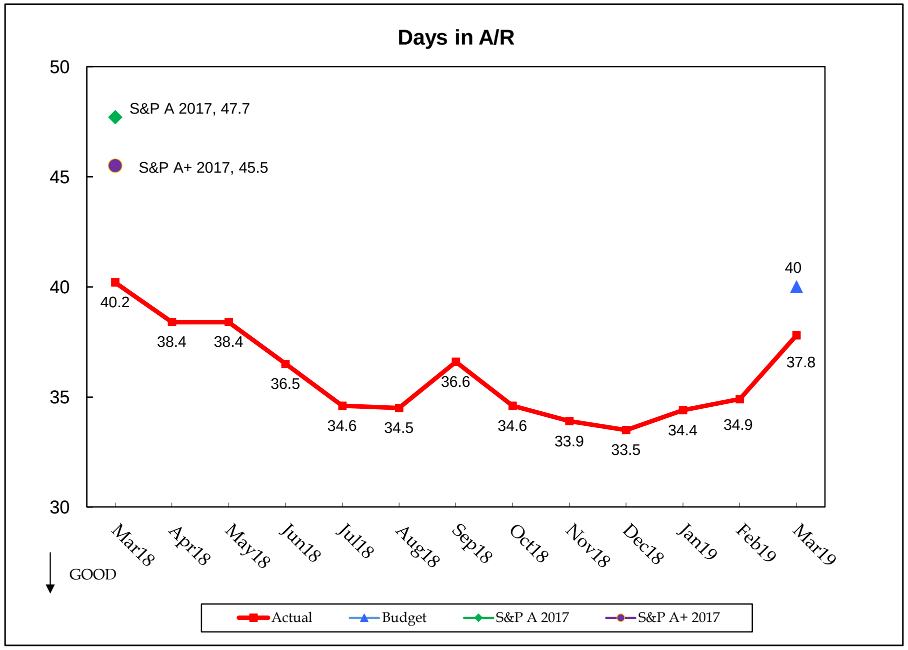
NORTON HEALTHCARE

**Key Volume Financial Indicators**
**March 31, 2019**



**Norton Healthcare, Inc. and Affiliates**

**Additional Disclosures**

**March 31, 2019**

## 1. Description of Organization and Reclassifications

### Organization

The accompanying combined financial statements of Norton Healthcare, Inc. include the transactions and accounts of Norton Healthcare, Inc. (the controlling company) and Affiliates including the following: Norton Hospitals, Inc., Norton Enterprises, Inc., Norton Properties, Inc., The Children's Hospital Foundation, Inc., Norton Healthcare Foundation, Inc., and Community Medical Associates, Inc. Norton Healthcare, Inc. and Affiliates are collectively hereafter referred to as the Corporation.

### Reclassifications

Certain reclassifications were made to the 2018 combined financial statement presentation to conform to the 2019 combined financial statement presentation, which had no impact on previously reported excess of revenue over expenses or net assets.

## 2. Commitments and Contingency

The Corporation is in the process of improving and expanding its facilities. Commitments related to renovation of existing facilities or construction of new facilities total $64.2 million at March 31, 2019. This will be funded through bond proceeds and cash flows generated from operations.

The Corporation is subject to claims and suits arising in the ordinary course of business.

## 3. Employee Benefit Plans

Substantially, all employees of the Corporation are covered by a noncontributory defined benefit pension plan (the Norton Healthcare, Inc. Retirement Plan) (Plan). Benefits are generally based upon years of service and an employee's annual compensation during their years of service. The Corporation annually funds an amount not less than the minimum required by ERISA. The defined benefit pension plan was frozen effective January 1, 2010. As a result, in future years, no service cost will be incurred. The other components of net periodic pension cost were $2.8 million and $3.0 million for the three months ending March 31, 2019 and 2018, respectively, and are presented in the line item "Net periodic pension cost" included in Non-operating gains (losses) section in the combined income statement.

**3. Employee Benefit Plans (continued)**

A summary of the components of net periodic benefit cost for the defined benefit pension plan for the three months ending March 31, 2019 and 2018 is as follows:

| | Three Months Ending March 31, | |
|---|---|---|
| ($ in thousands) | **2019** | **2018** |
| Interest cost | **$2,223** | $2,038 |
| Expected return on plan assets | **(819)** | (892) |
| Amortization net loss | **776** | 944 |
| Settlement cost | **586** | 875 |
| Net periodic benefit cost | **$2,766** | $2,965 |

The Plan has been named as a defendant in a class action suit brought on behalf of certain former participants who elected early retirement (the Plaintiff Class), alleging that lump-sum payments made by the Plan upon their retirement were incorrectly calculated. In early 2016, the United States District Court (the Court) issued its final, appealable order, indicating that the Plan owes additional lump-sum benefits to the Plaintiff Class. The Court ordered the Plan to recalculate benefits using a court determined formula, which is different than the formula as interpreted by the Plan, and provide additional data to allow for recalculation of the benefits. As of March 31, 2019 and December 31, 2018, respectively, management has estimated potential exposure to the Plan of approximately $60.2 million, respectively, which has been recorded by the Plan as part of the Plan's projected benefit obligation. Both the Plaintiff Class and the Plan appealed the court order and an appeals court hearing was held in June 2017. In May 2018, the United States Court of Appeals (Appeals Court) issued a ruling that the litigation be vacated in part and remanded to the lower Court for further evaluation. The lower Court is now in the process of assessing the case and issuing a scheduling order. Based on the timing of the Appeals Court ruling and nature of the ongoing litigation, management believes the estimated potential exposure recorded by the Plan is still our best estimate at the date of issuance of these financial statements. As the final outcome of this litigation is still uncertain and given the nature of the

Plaintiff Class's allegation, if the outcome is found to be solely in favor of the Plaintiff Class, the exposure to the Plan may exceed the amount recorded, which may be material to the Plan. The Company will continue to evaluate the status of the litigation and potential outcome on the Plan. At this time the Corporation is not currently required to fund the Plan as a result of this litigation.

## 4. Fair Value Measurements

The Corporation follows the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820*)*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 **–** inputs utilize quoted market prices in active markets for identical assets or liabilities.

- Level 2 **–** inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

- Level 3 **–** inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Corporation utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Corporation,

## 4. Fair Value Measurements (continued)

including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Corporation's respective asset or liability expected by a market participant and discount those cash flows back to present value (more typically referred to as a discounted cash flow approach).

*Valuation - Marketable debt securities and other investments and assets limited as to use*

As previously stated, level 1 securities are stated at unadjusted quoted market prices. The Corporation's various investment portfolios are held by a variety of business partners and these partners use external pricing services in providing the valuation for all levels of securities. For level 2 securities, this includes valuations based upon direct and indirect observable market inputs that may utilize the market, income, or cost approaches in determination of their fair value. The pricing services use a variety of pricing models and inputs based upon the type of security being valued. These inputs may include, but are not limited to: reported trades, similar security trade data, bid/ask spreads, institutional bids, benchmark yields, broker/dealer quotes, issuer spreads, yield to maturity, and corporate, industry, and economic events.

*Valuation - Beneficial interests in outside trusts*

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the trusts based on its pro-rata share of the underlying assets or income. Based on the observable inputs, typically marketable debt or equity securities held in the irrevocable trusts, the Corporation has determined its beneficial interests in outside trusts fall in level 2 of the fair value hierarchy. This technique is consistent with the market approach.

*Valuation - Interest rate swap asset (liability)*

The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. Based on the observable inputs, typically published interest rates and credit spreads, the Corporation has determined its interest rate swaps fall in level 2 of the fair value hierarchy. This technique is consistent with the income or discounted cash flow approach.

## 4. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value as of March 31, 2019 and December 31, 2018 using the valuation hierarchy defined above:

| ($ in thousands) | **March 31, 2019** | **December 31, 2018** | **Level** |
|---|---|---|---|
| Marketable securities and other investments at fair value | | | |
| Total Marketable debt securities [(A)] | **$ 128,618** | $127,504 | 2 |
| Assets limited as to use at fair value | | | |
| By Board of Trustees and Donors: | | | |
| Cash | **1,391** | 8,648 | 1 |
| Mutual funds: | | | |
| Templeton Global Equity Fund [(B)] | **79,776** | 73,281 | 1 |
| PIMCO Real Return Fund [(C)] | **40,016** | 41,104 | 1 |
| Capital World Growth and Income Fund [(D)] | **92,279** | 82,224 | |
| Dodge & Cox Global Stock Fund [(E)] | **90,282** | 75,007 | 1 |
| Dreyfus Global Equity Fund [(F)] | **100,256** | 91,783 | 1 |
| Wells Capital Management Core Fixed Income [(G)] | **49,467** | 51,505 | 1 |
| Vanguard Emerging Market Stock Fund [(H)] | **21,799** | 19,582 | 1 |
| MetWest Total Return Bond Fund [(I)] | **49,576** | 51,516 | 1 |
| Other publicly traded mutual funds [(J)] | **37,388** | 39,947 | 1 |
| Total Mutual Funds | **560,839** | 525,949 | 1 |
| Common and collective trust funds [(K)] | **38,634** | 35,711 | N/A |

**4. Fair Value Measurements (continued)**

| ($ in thousands) | **March 31, 2019** | **December 2018** | **Level** |
|---|---|---|---|
| Separate accounts: | | | |
| Sterling Capital [L] | **64,050** | 63,114 | 2 |
| EPOCH All Cap US Equity [M] | **57,497** | 50,643 | 1 |
| Baron (Domestic Equity Growth)[N] | **9** | 9 | 1 |
| Disciplined Growth Investors [O] | **58,723** | 49,355 | 1 |
| Other [P] | **1,107** | 1,109 | 1 |
| Total Separate Accounts | **181,386** | 164,230 | |
| Total by Board of Trustees and donors at fair value | **782,250** | 734,538 | |
| | | | |
| By contractual agreements: | | | |
| Cash | **29,157** | 29,888 | 1 |
| Total assets limited as to use by contractual agreements | **29,157** | 29,888 | |
| | | | |
| By Self Insurance Trust Agreements: | | | |
| Sterling Behavioral Small Cap Value [Q] | **5,542** | 3,804 | 1 |
| Total Mutual Funds | **5,542** | 3,804 | |
| Separate Accounts: | | | |
| Cash | **3,527** | 2,990 | 1 |
| Marketable debt securities [R] | **83,126** | 71,474 | 2 |
| Sterling Special Opportunities Equity [S] | **19,377** | 17,059 | 1 |
| Total Separate Accounts | **106,030** | 91,523 | |
| | | | |
| Total assets limited as to use by self-insurance trust agreements | **111,572** | 95,327 | |

**4. Fair Value Measurements (continued)**

| ($ in thousands) | March 31, 2019 | December 2018 | Level | |
|---|---|---|---|---|
| By Bond Indenture Trust Agreements: | | | | |
| Cash | **16,123** | 18 | 1 | |
| Marketable debt securities [T] | **57,235** | 72,827 | 2 | |
| Total assets limited as to use by Bond Indenture | **73,358** | 72,845 | | |
| Total Assets Limited as to Use at Fair Value | **996,337** | 932,599 | | |
| Assets limited as to use at net asset value: | | | | |
| Hedge funds [U] | **339,797** | 321,449 | N/A | |
| Real estate funds [V] | **104,634** | 103,968 | N/A | |
| Private Equity [W] | **52,340** | 43,530 | N/A | |
| Total assets limited as to use at net asset value | **496,771** | 468,947 | | |
| Less current portion of self-insurance trust and bond indenture and assets limited as to use in escrow | **(37,668)** | (21,189) | | |
| Total assets limited as to use | **$ 1,455,440** | $ 1,380,057 | | |
| Other assets at fair value: | | | | |
| Beneficial interest in outside trusts | **$22,085** | $ 22,555 | 2 | |
| Interest rate swap (Note 5) | **[illegible]** | [illegible] | 2 | 2 |

[A] Investment-grade readily marketable corporate debt securities (95%), municipal fixed-income securities (3%) and money market funds invested in high-quality fixed-income securities (2%).

[B] Mutual fund invests in domestic and international equities to achieve long-term capital growth. Fund strives to exceed the MSCI World Index.

## 4. Fair Value Measurements (continued)

(C) Mutual fund seeks to maximize real returns by investing the majority of its assets in Treasury Inflation Protected Securities (TIPS) issued by the U.S. government. The fund may also investment in U.S. Treasury securities, corporate bonds, mortgage-backed securities and emerging market bonds to add value when opportunities arise.

(D) Mutual fund invests in domestic and international equities with a focus on companies paying regular dividends and strives to exceed the MSCI World Index.

(E) Mutual fund invests in equity securities issued by medium-to-large sized well-established global companies, including those domiciled in emerging markets, and strives to exceed the MSCI World Index.

(F) Mutual fund invests in domestic and international equities and strives to exceed the MSCI World index.

(G) Mutual fund seeks to deliver excess return relative to the taxable fixed-income universe as measured by the Barclays U.S. Aggregate Bond Index.

(H) Mutual fund seeks to provide long-term capital appreciation. The fund invests mainly in equity securities of companies located in emerging markets including small, mid, and large capitalization companies.

(I) Mutual fund seeks to maximize long-term total return. A least 80% of its net assets are invested in investment grade fixed income securities or unrated securities of similar quality. Up to 20% of the Fund's net assets may be invested in securities rated below investment grade.

(J) Various other publicly traded mutual funds invested in a variety of money market, fixed-income, domestic equity, and international equity mutual funds. The equity mutual funds are diverse in investment strategies, including both value and growth and a variety of market capitalizations.

(K) Common and collective trust fund whose objective is to maximize real return by investing in a variety of securities that offer strong relative performance in a rising inflation environment. Fund seeks to exceed the Dow Jones AIG Commodity Total Return Index.

(L) Manager invests primarily in marketable corporate debt securities (64%), U.S. government fixed-income securities (29%), and other fixed-income investments (7%) with the objective of maximizing total return while preserving capital. Manager strives to exceed the Barclays Capital Aggregate index.

(M) Manager invests in domestic equities across various industries with a value orientation and high rates of free cash flow. Manager strives to exceed the Russell 3000 Value Index.

## 4. Fair Value Measurements (continued)

(N) Manager invests in domestic equities across various industries with a variety of market capitalizations with a growth orientation and strives to exceed the Russell 3000 Growth Index.

(O) Manager seeks to invest in mid-cap companies with market caps between $1 billion and $10 billion that are expected to yield high returns. The portfolio will generally hold between 40-50 securities with an average turnover ratio ranging from 15% to 30%.

(P) Conglomeration of smaller accounts whose components are not deemed material for individual breakout. Largest holding is a money market fund (67%).

(Q) Mutual fund that seeks to capitalize on behaviorally driven market anomalies by employing a disciplined investment process that ranks small capitalization companies in the fund's universe based on a number of factors including valuation, price momentum and earnings revisions.

(R) Externally managed portfolio holding investment grade U.S. agency and U.S. Treasury fixed-income securities whose maximum maturity does not exceed five years.

(S) Equity portfolio that primarily invest in companies with the best perceived combination of underlying growth potential and attractive valuation in a high conviction portfolio of 25-40 holdings.

(T) Externally managed portfolio holding U.S. agency securities, U.S. Treasury securities, highly rated municipal and commercial paper fixed-income securities structured to generate returns while protecting principal and providing liquidity to fund draws on the project fund.

(U) The hedge funds are composed of both fund of funds and direct hedge funds that seek to provide equity-like returns over a full market cycle with reduced volatility and low correlation. The managers employ various strategies, including, but not limited to, long/short equity, long/short credit, distressed credit, merger/credit arbitrage, and macrotrading strategies.

(V) The real estate funds include an actively managed private real estate investment trust (REIT) composed of participating mortgages and wholly owned real estate investments. A smaller portion of the holdings include a commingled real estate fund, which includes the purchase of REITs, real estate properties, private equity funds, public debt securities, and high-yield private debt.

(W) The private equity fund investments are comprised of limited partnerships that invest in the equity and debt of privately held companies. The objective of these strategies is to provide a return that exceeds that of public equity markets over a long-term time period. These investments will typically have a life of five-ten years depending on the strategy.

## 5. Swap Agreements

The Corporation uses interest rate swaps to manage its cost of capital and generate cash flow meant to reduce interest expense. The Corporation pays a rate based upon the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), an index of seven-day, high-grade tax exempt variable-rate demand obligations. In return, the Corporation receives a fixed rate based upon the London Interbank Offered Rate (LIBOR), the average interest rate charged when banks in the London interbank market borrow unsecured funds from each other.

At March 31, 2019 the Corporation holds the following interest rate swaps:

| Effective Date | Notional Amount | Maturity Date | Receive | Pay |
|---|---|---|---|---|
| February 21, 2001 | $100,000,000 | October 1, 2028 | 1.4925 of one month LIBOR | 2 times SIFMA |
| October 1, 2004 | $100,000,000 | October 1, 2028 | 62.6% of one month LIBOR plus .57% | SIFMA |
| November 3, 2006 | $140,000,000 | November 3, 2031 | 61.7% of one month LIBOR plus .577% | SIFMA |
| November 3, 2008 | $200,000,000 | November 3, 2026 | 61.7% of ten year LIBOR minus .016% | SIFMA |

All of the Corporation's interest rate swaps are with Citigroup and were issued pursuant to a single International Swaps and Derivatives Association, Inc. agreement with that counterparty. All of the Corporation's swaps are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Corporation, and, consistent with industry practice require posting of collateral should either party's cumulative mark to market liability exceed certain thresholds based upon the credit rating of the counterparty. At March 31, 2019 and December 31, 2018, based upon the agreements with Citigroup, the Corporation had a contract value which was an asset of $5.2 million and $2.8 million respectively. Based upon the Corporation's lowest credit rating (A-), collateral must be posted for liabilities in excess of $25 million. At the end of the most current period the Corporation had no collateral posted and was not required to post any collateral. Should the Corporation's credit rating fall below BBB, Citigroup would have the option of terminating some or all of the swaps at the contract value. Should the Corporation hold all swap agreements to maturity, as it intends, no cash settlement will be necessary and any posted swap collateral will be returned.

None of these interest rate swap agreements has been designated as a hedge for accounting purposes; therefore, the change in fair market value for these interest rate swap agreements appears in the income statement under Non-operating gains (losses) in the line "Change in fair value of swap". The cash flow impact of the swap agreements appears in the combined income statement and increases or decreases the "Interest Expense" line. The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable.

## 5. Swap Agreements (continued)

The fair value at March 31, 2019 and December 31, 2018 is shown in the balance sheet as an asset and is included in the combined balance sheet under other assets in the line "Other". The cash flow for these swaps is settled semi-annually on April 1st and October 1st. In the interim periods a receivable or payable is recorded, currently the cash flows are in a receivable position and this receivable is included in the line "Miscellaneous receivables" under current assets in the combined balance sheet.

| | **Balance Sheet Impact** | | |
|---|---|---|---|
| ($ in thousands) | **Miscellaneous Receivables** | **Fair Value of Swap** | **Balance Sheet Impact Total** |
| December 31, 2018 | **$ 464** | **$2,366** | **$2,830** |
| Decrease to interest expense | **596** | **-** | **596** |
| Change in fair value of swap | **-** | **1,740** | **1,740** |
| March 31, 2019 | **$1,060** | **$4,106** | **$5,166** |

## 6. Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments due to settlements of reviews and audits.

Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Corporation. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Corporation believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation.

Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided and the Corporation does not believe it is required to provide additional goods or services.

## 6. Net Patient Service Revenue and Patient Accounts Receivable (continued)

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606, *Revenue from contracts with Customers*, section 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the combined balance sheet date. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the combined balance sheet date.

The Corporation has elected to use the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than recognizing net patient service revenue on an individual contract basis, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient net patient service revenue and outpatient net patient service revenue. Based on the historical collection trends and other analysis, the Corporation believes that net patient service revenue recognized by utilizing the portfolio approach approximates the net patient service revenue that would have been recognized if an individual contract approach were used.

The Corporation has agreements with third-party payors that provide for payment to the Corporation at amounts different than the Corporation's established charges. For uninsured patients who do not qualify for charity care, the Corporation recognizes net patient service revenue based on established charges, subject to certain discounts and implicit price concessions determined by the Corporation. The Corporation determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and/or implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Corporation estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and/or implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of change. Adjustments arising from a change in the transaction price were not significant in the three months ending March 31, 2019 and 2018.

## 6. Net Patient Service Revenue and Patient Accounts Receivable (continued)

In rare instances, the Corporation receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at March 31, 2019 and 2018 were not significant to the Corporation.

The Corporation is paid prospectively determined rates for the majority of inpatient acute care, outpatient, and ambulatory care services provided (principally Medicare, Medicaid, and certain commercial payors). This net patient service revenue is subject to retroactive adjustments due to audits, reviews, change in program administration and rules, and outcome of litigation. These settlements are estimated based on the agreement with the payor and correspondence, which includes an assessment to ensure it is probable that a significant reversal in the amount of cumulative net patient service revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The Corporation has established a corporate compliance program to assist in maintaining compliance with such laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulator action, including fines and penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that current recorded estimates will change by material amounts in the near term.

Net patient service revenue by major payor source, net of price concessions is as follows:

| | **Three Months Ending March 31,** | | | |
|---|---|---|---|---|
| ($ in thousands) | **2019** | **% of Total** | 2018 | % of Total |
| Commercial | **$306,559** | **51.3%** | $272,512 | 50.2% |
| Medicare | **180,171** | **30.2%** | 163,145 | 30.0% |
| Medicaid | **102,652** | **17.2%** | 98,020 | 18.0% |
| Self-pay and other | **7,896** | **1.3%** | 9,933 | 1.8% |
| | **$597,278** | **100.0%** | $543,610 | 100.0% |

Revenues from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

## 7. Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Leases (Topic 842) (ASU 2016-02) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. We adopted the provisions of ASU 2016-02 on January 1, 2019.

The Corporation determines if an arrangement is a lease at inception. Operating leases are included in other assets, current liabilities, and other noncurrent liabilities. Finance leases are included in property, plant, and equipment, net, current portion of long-term debt, and long-term debt on the combined balance sheet. Right of use assets and right of use liabilities are recognized on the net present value of the future minimum lease payments over the lease term at commencement date. The right of use asset includes a value for options to extend a lease if it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

## 8. Subsequent Events

Management has evaluated all events and transactions that occurred after March 31, 2019 through May 14, 2019 and determined there are no subsequent events to report.

# CERTIFICATION

## Bondholder - Quarterly

The undersigned certifies that the information presented in the accompanying Quarterly Report is the Quarterly Report required by the Disclosure Agreement for the following bond issues:

1. $448,015,517.20, Kentucky Economic Development Finance Authority, Health System Revenue Bonds, Series 2000 (Norton Healthcare, Inc.)
   CUSIP 49126VCK1

2. $75,000,000, Louisville/Jefferson County Metro Government, Health System Variable Rate Revenue Bonds, Series 2011 (Norton Healthcare, Inc.)
   CUSIP 54659 LAL8

3. $154,580,000, Louisville/Jefferson County Metro Government, Health System Revenue Bonds, Series 2013A (Norton Healthcare, Inc.)
   CUSIP 54659L AW4

4. $50,000,000, Louisville/Jefferson County Metro Government, Health System Variable Rate Revenue Bonds, Series 2013C (Norton Healthcare, Inc.)
   CUSIP 54659L AW4

5. $521,050,000, Louisville/Jefferson County Metro Government, Health System Revenue Bonds, Series 2016A (Norton Healthcare, Inc.)
   CUSIP 54659LBV5

Dated this May 14, 2019.

Adam D. Kempf
Senior VP & Chief Financial Officer